

FAQ: “Premium Taxes and Fees -- FIRETAX”

Page 1 of 2

I heard that fire companies get State funds from premium taxes and fire tax. What is “Premium Tax”? How much is it?

According to the *Delaware Insurance Code, Title 18, Chapter 7: Fees and Taxes*, all insurance companies that sell insurance products to cover risks located in Delaware pay a 2% tax on the total premiums the company reports as written during the previous calendar year. (1¾% per 18 Del. C., §702(c); ¼% per 18 Del. C., §707(a)).

How do these taxes get collected?

All companies authorized to do insurance business in the State of Delaware are required to file premium tax reports to the Delaware Insurance Department on or before March 1 each year. The report forms and filing instructions are provided by the Insurance Department (Working Form(s) T-1 through T-8). On these forms insurance companies report insurance premiums written in Delaware during the year. Detailed instructions describe the specific requirements mandated in the Insurance Code regarding the proper reporting of premiums and all other considerations for insurance, allowable deductions, fees, etc. (18 Del. C., §702(a); §708(a)). The premium tax (2%) is assessed and collected on those premium amounts. All fees, charges, administrative fines and taxes are paid to and collected by the Insurance Department and promptly deposited to the State of Delaware's General Fund (except as otherwise expressly provided) (18 Del. C., §710(a), (c)). Please refer to the document entitled *Insurance Premium Tax General Information* for a more detailed description of the activities of the Premium Tax Unit within the Insurance Department.

What is “Fire Tax”?

Fire Tax is not actually a “tax”, but rather a “break-down by lines and location” **Report**. It is generally referred to as “Fire Tax” because the premium amounts stated on this report are used to calculate the amount of State support for volunteer fire departments.

On the annual premium tax report, each company must report ALL insurance business written in Delaware by that company during the calendar year. But the Fire Tax Report assembles data only on particular lines of insurance business. Of the various property and casualty lines of business that a company may be licensed to sell in Delaware, the amount of premiums received for the specific types of coverages listed in 18 Del. C., §705(a) must be detailed on the Fire Tax Report. This report is filed at the same time that the company files the annual premium tax report, using Working Form T-5, Parts I and II, which is provided by the Insurance Department. In Part I, the company reports the amount of premiums received by the insurer for each line of business during the calendar year. In Part II, the company reports what portion of the premiums listed in Part I covers risks located in the City of Wilmington, New Castle County outside the Wilmington city limits, Kent County, and Sussex County, respectively (18 Del. C., §705 (a)). The totals of Part Part II and I must be equal.

Based on the reported Fire Tax figures, a specified percentage of the funds collected through premium taxes is then disbursed to volunteer fire departments throughout the State, and to the City of Wilmington in accordance with 18 Del. C., §705(b).

What is the process of figuring how much money the Fire Companies should get?

The Insurance Department gathers and analyzes the reported data from all companies that complete Working Form T-5 by using a 3-year Premium Comparison worksheet. The Department follows a process of examination and analysis to be sure the reported figures, and subsequent Fire Company disbursements, are as accurate as possible. The Department uses the company's annual financial statements and other sources of financial information to verify the accuracy of the information reported by the company.

After determining that all required companies have filed, that what is reported is accurate, and that significant increases or decreases in premium can be justified, the Insurance Department totals the reported portions of premiums allocable to each County and the City of Wilmington. The Insurance Department then calculates the disbursement amounts that will be sent to fire departments throughout the State. These amounts are determined by first multiplying the total Fire Tax premiums for each county by 3¾%, as specified in 18 Del. C., §705(b), then dividing each county total by the number of registered fire departments within that county. The

FAQ: "Premium Taxes and Fees -- FIRETAX"

Page 2 of 2

premium totals and calculated disbursement amounts are reported to the State Treasurer on April 1, to comply with 18 Del. C., §705(b).

According to 18 Del. C., §705(b), the State Treasurer is required to make disbursements to the fire departments on or before May 1 and again on or before September 15 each year. The Delaware Code specifically states that the amount of the May 1 payment shall be the distribution total mentioned above **less** the amount of the September 15 payment received during the previous year. Then, according to 18 Del. C., §705(c), each September 15 payment shall be $\frac{3}{4}$ % of the premiums reported as described above, again divided by the number of volunteer fire departments in each county. Using the Insurance Department's reports, the State Treasurer processes and delivers disbursement checks to the fire departments as mandated.

What about the money for Ambulance Services? How are those disbursements determined?

In a similar manner, all companies authorized to write any type of life and/or health insurance coverage within Delaware must report gross premiums to the Insurance Department and pay the 2% premium tax on those premiums. (See *"How do these taxes get collected?"* above)

The Insurance Department again determines that all required companies have filed, that what is reported is accurate, and that significant increases or decreases in premium can be justified. The Department then ascertains the total amount of premiums as reported by the insurers on the premium tax reports, and notifies the State Treasurer of the totals.

The Insurance Commissioner also provides the names and addresses of registered nonprofit organizations that provide ambulance and/or rescue services within this State, including, but not limited to, organizations such as volunteer fire companies, the Veterans of Foreign Wars and the American Legion. (18 Del. C., §713(a).)

The State Treasurer then distributes, on a pro rata basis, an amount equal to .015% of the gross premiums to each of these nonprofit organizations within the State that are engaged in providing ambulance and/or rescue services. (18 Del. C., §713(a)(1) and (2).)